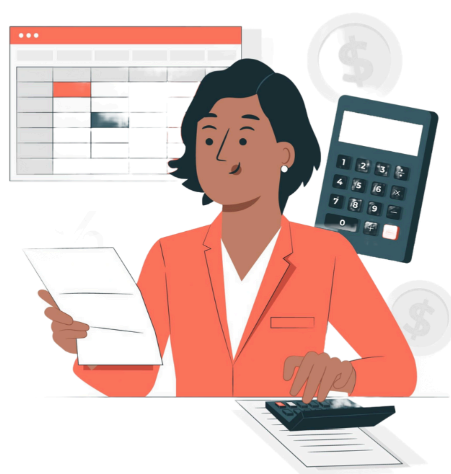
Accounting for Non Profit Organization

An indepth guide



How to do accounting for a non-profit organization?

Introduction

Managing money for a nonprofit isn't the same as handling finances for a regular business. If you've ever been involved with nonprofit accounting, you probably noticed there are some special rules and things you need to watch out for. In this guide, I'll walk you through the basics — what nonprofit accounting means, how it's different from business accounting, and what you need to keep an eye on to stay organized and compliant. Whether you're just getting started or want to get better at this, this should help clear things up.

Why Nonprofit Accounting Is Different?

Have you come across the term "fund accounting"? It's something nonprofits talk about a lot, and there's a good reason why. Unlike a business that's all about making a profit, nonprofits handle donations, and those donations often come with certain conditions.

Imagine you have a bunch of categories, each labeled for a different purpose — rent, programs, salaries. Donors want to be sure their money goes exactly where they intended it to. Without these clear categories, things can get messy pretty fast, and donors might lose trust.

The Three Main Fund Categories:

Here's a quick breakdown of those categories or fund types:

- **Unrestricted funds**: This is your flexible money — the kind you can spend wherever you need to. Most small donations and program income fall here. Need to pay rent or cover bills? This is the fund you'll be using.

- **Temporarily restricted funds**: These donations come with conditions. Maybe a grant for a summer camp or money designated for a specific project. Once that's done or the time is up, leftover funds usually move into unrestricted funds.

- **Permanently restricted funds**: Usually endowments. The original amount stays untouched forever, but you can spend the interest or earnings, often for something specific, like scholarships.

When I first started working with nonprofits, all this sounded overwhelming. But having these buckets made things way easier, and donors appreciated the transparency.

Setting Up Your Chart of Accounts:

Think of your Chart of Accounts as the map of your nonprofit's money. It helps you see where everything belongs:

- **Assets**: What you own — cash, equipment, money owed to you.

- **Liabilities**: What you owe — bills, loans.

- **Net Assets**: This is where you track those unrestricted, temporarily restricted, and permanently restricted funds separately.

- **Revenue**: All the money coming in — donations, grants, program fees.

- **Expenses**: What you spend on programs, admin, fundraising, and more.

If your finances aren't organized like this, it's easy to lose track or mix things up.

How to Track Income and Expenses?

Always make sure you know whether donations are restricted or unrestricted when you record them. Mixing these up can cause headaches later, especially during audits or tax reporting.

Also, it's important to know exactly where your money is going.

How much are you spending on programs compared to admin or fundraising? Breaking this down isn't just good practice — it demonstrates to donors that you're serious about using their money effectively.

Cash vs. Accrual Accounting — Which One's Best?

If you're new to nonprofit accounting, deciding between cash and accrual accounting can feel confusing.

Cash accounting means you record money only when it actually comes in or goes out. It's simple and works well for smaller nonprofits with straightforward finances.

Accrual accounting records income and expenses when they happen, even if the cash hasn't arrived yet. For example, if a donor pledges a gift today but pays next month, accrual accounting notes it immediately.

Most of the time, accrual accounting gives a clearer picture of how your nonprofit really stands financially. It helps with better planning and fewer surprises.

Financial Reports You Should Prepare:

Nonprofits need to file **IRS Form 990** every year. To do that properly, you'll want these reports:

- Statement of Financial Position: Think of it as a snapshot of what your nonprofit owns and owes.
- Statement of Activities: Shows how you used your funds during the year.
- Statement of Cash Flows: It tracks and summarizes the inflows and outflows of cash.

These reports aren't just busywork — they help build trust with donors and keep your organization accountable.

Honoring Donor Restrictions:

Donors aren't just handing over money and walking away — they trust you to use their gifts as promised. That means you have to honor any restrictions placed on donations.

Having a good accounting system makes this much easier. If you don't keep track carefully, you risk misusing funds, which can lead to audits, fines, or losing donor confidence. And that's something no nonprofit wants.

When to Bring in a Professional?

As your nonprofit grows, things get more complex — payroll, bigger grants, audits. That's when it makes sense to bring in a CPA who knows nonprofit accounting and investing in a proper accounting & bookkeeping software to manage everything seamlessly. Tools like BDGAGSS, XERO, Sage, and QuickBooks can smoothly manage your accounting tasks and save you from costly mistakes and a lot of stress.

Wrapping Up

I know nonprofit accounting can feel like a mountain to climb at first. But really, it comes down to being organized and transparent with your money.

Start by setting up clear fund categories, keep a close eye on income and expenses, and get comfortable with the financial reports you need to prepare. And remember, you don't have to do it all yourself — with the right tools and experts, you can manage your accounting smoothly.

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